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Whatever happened to "Corporate Cultures"?

I have had a couple of recent forays into the area of "corporate culture" for clients in the last months, so I went back to my sources to re-study this topic.

One of the most-often quoted studies on corporate culture, and a seminal work in this area, is Terrence Deal and Allen Kennedy's *Corporate Cultures: The Rites and Rituals of Corporate Life*, published in 1982. Deal and Kennedy had surveyed some 80 companies and identified what they considered to be characteristics of "strong cultures":

- A strong culture is a system of informal rules that spells out how people are to behave most of the time (as opposed to a "weak culture", where employees spend a good deal of time just trying to figure out what they should do and how they should do it).
- A strong culture enables people to feel better about what they do, so they are more likely to work harder, i.e. more productively (As per psychologist Frederick Herzberg, many employees, those in weaker cultures, felt cheated by their jobs, were attending to special interests, and had uncertain life values and ethics).

The "elements of culture" are identified as the following:

1. Each company faces a different reality in its marketplace. Companies that <u>understand their market reality</u> adjust their cultures to success in their marketplace. For example, companies which depend on success in selling a relatively undifferentiated product (e.g. retail outlets, real estate, large consumer sales organizations in general) tend to share a "work hard, play hard" culture which encourages a high level of activity – "find a niche and fill it" -- and persistence, just keep trying, with customers. Another type of culture is developed by organizations which have more product differentiation and invest a considerable amount of time and resources in research and development of product (think pharma and aircraft production companies). This is characterized as a "bet-your-company-culture" where actions are taken only after considerable thought and analysis of hoped-for product outcomes.
2. Values -- <u>a clear system of values</u> which spell out success in the culture. "If you do this, you will succeed", and values are shared openly (P&G provides noteworthy examples, e.g. in their "What Count Factors").
3. Heroes -- <u>role models of individuals</u> who have been successful in the culture and are known as people who "show what you have to do to succeed around here" (think Jack Welch at GE, and Niall Fitzgerald at Unilever).
4. Rites and rituals -- systematic and <u>programmed routines and celebrations which show employees the kind of behavior that is expected of them</u> (Remember May Kay Ash and her ritual awards of the Pink Cadillacs?)

5. A cultural network of people who are the high priests of organizations, who tell the stories, know the people and the traditions, and pass on the secrets that people need to know in order to understand and function in the organization. Sometimes these are very senior executive assistants or managers who have been successful over time, or have survived several reorganizations and/or mergers (My favorite example is Bob Dorn at the Center for Creative Leadership, who founded the Center's keystone seminar, the Leadership Development Program, and whose influence continues today nearly 20 years after he retired).

On the basis of their studies, D & K identified 18 companies with strong cultures, from Caterpillar Tractor, to DuPont, to Tandem Computers, and their first book details the cultural aspects that these companies share and exemplify from the list in the above paragraph, and which had established "strong cultures" over time.[1]

Fast-forward almost 30 years, and all but 4 of the 18 companies listed still remain in business and are even stronger, many after a number of acquisitions and mergers (e.g. Caterpillar Inc. and Dana Corporation, which also survived bankruptcies in their process). Of the 4 companies which have disappeared, noteworthy non-survivors were Tandem Corporation, which originally was a split-off from Hewlett-Packard and was later absorbed into Compaq and then finally merged back into HP; and Digital Equipment Corporation, which was acquired by Compaq/HP as well (see below for more details on some of these companies, both successes and failures).

However, by1999, in their analysis of *The New Corporate Cultures,* Deal and Kennedy drew out quite a different story about the current state of corporate culture:

> "Everywhere we look, corporate cultures are in disarray. Employees are frightened about their future job prospects. Loyalty to companies has flown out the window. Cynicism about management is rampant. Self-interest rules the roost…"

D & K support these negative judgments with the following descriptive chapters of different aspects of the changes in corporate behaviors over the intervening years between their 2 volumes:

1. The rise of shareholder value and short-termism. Where once it was "stakeholder value" that reigned, including shareholders, employees, customers and (sometimes) community, now the focus is principally on "shareholder value", the market value of a company's stock, which is driven mainly by short-term quarterly profits (or expected profits). This means, of course, that all efforts are made to cut costs and increase efficiencies. CEOs are hired and fired, and rewarded, on the basis of their cost-cutting abilities and not more esoteric competencies like building corporate culture.

2. Aligned with this trend, there comes the inevitable downsizing and reengineering, which the authors characterize as "corporate lobotomy". What had become of the commitment to long-term employment offered by strong-culture companies in the 2nd half of the 20th century? For example, the U.S. Bureau of Labor Statistics reported that over 9 million workers had been

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[1] The companies were: Caterpillar Tractor, General Electric, DuPont, Chubb Insurance, Price Waterhouse & Co., 3M, Jefferson-Smurfit, The Training Services Administration Agency of the British Government, Digital Equipment Corp., IBM, Dana Corporation, Procter & Gamble, Hewlett-Packard, Leo Burnett Advertising Agency, Johnson & Johnson, Tandem Computer, Continental Bank, and the Rouse Corp.

displaced from their jobs between 1993 and 1996, and nearly half of these had held their jobs for more than 3 years before getting the ax. Of course, many of the organizations identified as strong-culture companies also shared in the job-cutting frenzy, and this also may have made them stronger and more able to survive. But for those employees who did not survive the downsizing, the cultural alienation of being separated from jobs and livelihood became a hallmark of the shrinking loyalty and identification of people with their work environment.

3. Outsourcing (née "corporate amputation") also added its negative effect. From an efficiency point of view, having companies whose specialty lies in specific fields (like accounting, payroll, IT, and transport) follow their specialty and take charge of some corporate functions, makes sense for lowering costs. As long ago as the 18th century and Adam Smith's principal of specialization, our economies have seen the benefits of focusing on single tasks or processes. However, this outsourcing may be even more damaging for corporate culture than is downsizing: consider the case of workers who, having perhaps survived a wave of downsizing, are now outsourced into becoming employees of new contract companies. They may keep their jobs and even their offices, but their salaries and benefits are reduced under the cost reductions implicit in the savings involved in the outsourcing. Moreover, they are now "temps", expendable, and isolated from former co-workers by their new status.

4. Finally, mergers have taken their toll, and these also affect cultural patterns. First, there is there is the "look over your shoulder" impact, where personnel try to figure out where cuts will be made. Second, there is the "winners and losers" effect – generally one party to the deal usually wins and the other (usually the acquired) most frequently loses as jobs in the new entity are assigned. Finally, there is another "isolation" impact as survivors discover that the company they now work for is significantly different than the one they worked for before.

So let's take a look at a few of these "strong-culture" organizations and see what has happened to them in the intervening years between the 2 works by Deal and Kennedy, and afterward, in the face of the changes wrought in an economy plunging toward efficiency and reduced costs, and into meta-mergers.

- Caterpillar Tractor, now **Caterpillar, Inc**., has been in continuous operation since 1910. Beginning in 1951, the company has gone through 35 mergers and/or acquisitions, culminating in 2011 with its largest ever, Bucyrus International, a maker of mining equipment. It has also divested itself of unwanted assets, the last in 2008. Since the '90s, CAT has downsized its workforce in the U.S., especially of unionized workers, while increasing labor employed abroad and outsourcing its work to other companies. It also shifted production to smaller "focus facilities" in right-to-work states in the U.S., to make itself less vulnerable to bargaining tactics by organized labor.

  Caterpillar came close to bankruptcy in the early 1980s, due to a sharp downturn in product demand as competition with Japanese rival Komatsu increased. The company continues healthy today and employs over 100 thousand workers around the world. Sales and profits have fluctuated over time, but in recent years the company has benefited from growth in business and around the world. Sales outside the U.S. have increased percentage-wise to encompass 2/3 of the total.

- Founded in 1892, **General Electric** (**GE**) was one of the original 12 companies listed on the then-newly-formed Dow Jones Industrial Average in 1896, and still remains after 115 years. The company has acquired and sold many other companies in its long history, since 1911 when it first bought into the electric lighting business. GE's divisions include GE Capital, GE Energy, GE Technology Infrastructure, and GE Home & Business Solutions. Through these businesses, GE participates in a wide variety of markets including the generation, transmission and distribution of electricity (e.g. nuclear, gas and solar), lighting, industrial automation, medical imaging equipment, motors, railway locomotives, aircraft jet engines, and aviation services. GE has a presence in over 100 countries. Jeffrey Immelt is the current chairman of the board and chief executive officer of GE. He was selected by GE's Board of Directors in 2000 to replace Jack Welch following his retirement. No stranger to downsizing, GE has laid off one-fifth of its American workers since 2002. And in a company as large and diversified as GE, “outsourcing” is a way of life. However, the company has continued on a growth trend over the long run, and in 2010, GE generated $20 billion of revenue from businesses in which they were not present in 2000. GE has some 300 thousand employees worldwide, and CEO Immelt writes in the 2010 annual report that, “*We have a strong and unified culture.*”

- **DuPont,** started in 1802, is one of the oldest companies in the U.S. and is also a component of the DJIA. The DuPont culture, certainly one of the strongest in America, is founded on blockbuster chemical inventions such as Nylon, Teflon, Dacron, Nomex (fire-retardant fabric), and Kevlar. It is also very culturally oriented around industrial safety, given the company’s long-standing participation in the production of explosives. DuPont has acquired and divested many assets in recent years, notably of which was the acquisition of Conoco in 1981 and later divestiture in 1999. In 2004, DuPont sold off its textile businesses, which had gained it considerable fame worldwide.

  DuPont was also the inventor of chloroflurocarbons (CFCs) and the largest producer of what came to be known as ozone-depleting chemicals (used primarily in aerosol sprays and refrigerants). In a dramatic turnaround of their previous position, DuPont advised in 1988 that it would begin leaving the CFC business entirely after a NASA announcement that CFCs were not only creating a hole in the ozone layer above Antarctica but also thinning the layer elsewhere in the world. DuPont finally announced in 1992 that it would stop selling CFCs with a full page advertisement in the *New York Times* stating it would quit the sale of CFCs by the end of 1995.

  In 2010, DuPont had 60 thousand employees worldwide and was headed by Ellen Kullman, the first female CEO in its history. Also in 2010, the company announced the acquisition of the Danish company Danisco, one of the world's leading producers of ingredients for food and other consumer products. DuPont used the slogan "Better Things for Better Living...Through Chemistry." until 1982 when the "Through Chemistry" part was dropped. Since 1999, their slogan has been "The miracles of science", reflecting a broader cultural focus on innovative products. DuPont has R&D facilities located in China, Japan, Taiwan, India, Germany and Switzerland with an average investment of $1.3 billion annually in a diverse range of technologies for many markets including agriculture, genetic traits, biofuels, automotive, construction, electronics, chemicals and industrial materials. DuPont employs more than 5,000 scientists and engineers around the world.

- **Dana Corp.** is another of the "strong-culture" companies that, like Caterpillar, survived bankruptcy, in 2007. It, too, acquired other organizations over time, purchasing 24 companies between 1963 and 1980. It also was forced to downsize a third of its employees in the 1980s. A major hallmark of its people-oriented culture was the formation of Dana University, an in-house training program for employees who wanted to move up through the ranks of the company.

Other organizations on the D&K list have had similar experiences as those above: Price Waterhouse merged with Coopers & Lybrand, Jefferson Smurfit combined with Kappa. P&G, founded in 1837, has remained a powerhouse in household consumer goods. The company bought Gillette in 2005 and sold off other brands to the Dial Corp. P&G has downsized over the years as product strategy changed, but total employment increased to127 thousand in 2010. P&G's slogan is "Touching lives, improving lives", reflecting its consumer-oriented culture.

How about those companies on the list of 18 that didn't make it through the downsizing/outsourcing/merger trends described by Deal & Kennedy?

- **Tandem Computers**: Formed by CEO Jim ("Jimmy") Treybig in a split-off from Hewlett-Packard in 1974, remaining independent until 1997. Its claim to fame was the provision of "no-break" technology for computers, with automatic backup parallel computer systems ("in tandem") in case of failure. By 2001, Tandem's advantage had been competed away by other organizations' systems, notably by Compaq, which took over Tandem in 1997. Finally, Compaq itself was merged into H-P in 2001, and Tandem was retaken in the process.

  Tandem's culture was particularly people-oriented. Tandem's weekly beer busts were the most visible sign that this company was a bit different. These featured keg beer, wine, soft drinks, popcorn, unshelled peanuts – and, of course, good conversation. Besides being fun, their main purpose was to encourage employees from different groups and levels to mix and learn what others in the company were thinking and possibly needed from them. "Jimmy" was always present and accessible. In addition to these outer symbols, Tandem was unique in also granting 100 shares every year to absolutely every employee, no matter how lowly his/her status. Similarly, every domestic employee was given a paid six-week sabbatical every four years, beyond regular vacation time, a nearly-unheard of perk in industrial organizations. Now as a nearly anonymous division within Compaq/ HP, Tandem's culture is just history.

- **Digital Equipment Corporation** was an American company in the computer industry and a leading vendor of computer systems, software and peripherals from the 1960s to the 1990s. Also known as **DEC** and using the trademark **DIGITAL**, its PDP and VAX products were arguably the most popular minicomputers for the scientific and engineering communities during the 1970s and 1980s. The rapid rise of the business microcomputer in the late 1980s, and especially the introduction of powerful 32-bit systems in the 1990s, quickly eroded the value of DEC's systems. The company was acquired in 1998 by Compaq, in what was at that time the largest merger in the history of the computer industry. Like Tandem, DEC simply was on the wrong side of the technology curve.

- **Continental Bank.** Similar to the long-standing companies listed above, The Continental Illinois National Bank and Trust Company had a long history, reaching back to two Chicago banks, the Commercial National Bank, founded during the American Civil War, and the Continental National Bank, founded in 1883. It was at one time the seventh-largest bank in the United States. In 1984, Continental Illinois became the largest ever bank failure in U.S. history, when a run on the bank led to its seizure by the Federal Deposit Insurance Corporation (FDIC). Foreshadowing the collapse of derivative-based and sub-prime loans in 2009, Continental Illinois became insolvent due, in part, to failed loans for oil & gas producers and service companies and investors in the Oklahoma and Texas oil & gas boom of the late 1970s and early 1980s. In 1994, Bank of America purchased Continental Bank from the U.S. government.

- **The Rouse Company** built some of the first enclosed shopping malls in the U.S., and it pioneered the development of what it called "festival marketplaces" upscale retail developments like Faneuil Hall in Boston, and Bayside Marketplace in Miami. The company has also been credited as the pioneer of the first successful food court in an enclosed shopping mall, when the second-floor food court at the Paramus Park shopping mall in New Jersey opened for business in 1974. This followed an unsuccessful attempt at the Plymouth Meeting Mall in 1971, which reportedly failed because it was "deemed too small and insufficiently varied." In 2004, the Rouse Company was sold to Chicago-based General Growth Properties Inc., another shopping mall developer.

So, what are the lessons from this analysis of corporate culture over time? My reading of history and my own personal experience suggest the following learnings:

1. "Strong cultures", as identified by Deal & Kennedy nearly 30 years ago, still have importance in providing vehicles for inspiring people to do good work for others – stakeholder value remains the driving force, including shareholders, but also employees and customers.

2. A key to the strength of a corporate culture has to be found in connecting people together in meaningful endeavors. In order for people to "feel better about what they do" and be more productive, they have to feel connected to the enterprise and to each other (see "The Heart Aroused" on this website).

3. The longest-lasting and strongest of these companies have gone where many others have as well – they have downsized, outsourced, and merged. But they have survived and done whatever was necessary to keep themselves growing and profitable entities. This gives new meaning to "sustainability": the "triple bottom line" of People, Planet, and Profits is truly a meaningful goal; but without a relentless focus on the last of these elements, profits, (yes, even in the short-term!), firms may not have the capital support necessary to continue developing their people and caring for their planet. Capitalism, as it must be practiced today, is a hard taskmaster.

4. A new organizational analytical technology is evolving that emphasizes complexity, and the need for leaders and managers to recognize and make sense of the unpredictable events that every corporate culture must face – especially large-scale ones like most of the "strong-culture" organizations cited above. The business environment of today is not only complicated, meaning with many moveable parts and people; it is also complex and difficult to predict, when our corporate tradition has been to analyze and strategize on the basis of what we know. What is currently indefinable may mean the difference between success and failure as organizations adapt their cultures to the challenges ahead (see the references below on "complexity").

5. Nevertheless, without a continual focus on "Why we work here?" and "How do we connect to each other?" companies face a further daunting challenge of

> becoming soul-less entities which survive on the backs of employees and managers who do their daily work, change companies at the drop of a few coins, and find their highest satisfactions in extra-curricular activities. Worst of all, it seems to me, is the fate of people who work all their lives at a job they dislike, with people they don't trust, only to retire to do what they've always wanted to do. It seems to me that the record of the above successful "strong-culture" companies offers us alternatives to this malaise of hard-shackle capitalism.

Finally, as a footnote to this discussion, I invite you to read on our website the article "Leading from Behind…And Then There Was Mervyns" for an account of corporate culture gone wrong, a company's capital sold off under greed, and the mistake of leadership in allowing it to happen, in return for a payout that offered short-run gains. Herein lies a sad example of capitalism at its worst for <u>all</u> stakeholders…

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